



Internal assessment: Group 3 individual candidate cover sheet

Arrival date: **20 April / 20 October**

Session: May 2013

School number:

School name:

- Please retain a copy of this form either using the **Save as** function or by printing a copy
- Complete this form in the working language of your school (English, French or Spanish).
- Attach one completed copy of this form to the work of each candidate represented in the sample.
- After completing this form it must be printed and then signed by the teacher and candidate to confirm the authenticity of the work.

Subject: Economics

Level: HL

Candidate name:

Candidate session number:

Title(s) and dates of work: (complete if appropriate)

- (1) This half-baked pasly is offensive 10/05/2012
- (2) Spanish unemployment hits record 5.64 million 23/05/2012
- (3) India taxes crude oil imports... 30/01/2013
- (4)

Teacher declaration: To the best of my knowledge, the material submitted is the authentic work of the candidate.

Teacher's name:

Signature:

Date: 26/3/2013

Candidate declaration: I confirm that this work is my own work and is the final version. I have acknowledged each use of the words or ideas of another person, whether written, oral or visual.

Candidate's signature:

Date: 16.03.2013

Types of work undertaken (to be completed by teacher)
(for example, written assignment/essay/case study/fieldwork/portfolio/photography/video/computer)

Business and management SL: the issue or problem selected for the commentary must relate to the SL syllabus and refer directly to a single business organization (*Business and management guide, March 2007, page 52*)

Portfolio of three commentaries based on articles.

Other relevant information (where appropriate)

Teacher support (where a candidate could not have completed the work without substantial support, please indicate)

International Baccalaureate

3/CS (reverse)

School name:

Candidate name:

Subject:

Level:

Assessment criteria: Complete the boxes for the appropriate subject

	A	B	C	D	E	F	G	H	I	Total
History HL and SL:	0-3	0-6	0-5	0-6	0-2	0-3				0-25
Geography HL and SL:	0-3	0-3	0-5	0-10	0-2	0-3	0-4			0-30
Philosophy HL and SL:	0-5	0-5	0-10	0-10						0-30
Psychology HL:	0-5	0-2	0-2	0-2	0-2	0-3	0-8	0-2	0-2	0-28
Psychology SL:	0-2	0-2	0-2	0-2	0-4	0-6	0-2			0-20
Social and cultural anthropology HL:	0-2	0-4	0-4	0-4	0-3	0-3				0-20
Social and cultural anthropology SL:	0-5	0-4	0-6	0-5						0-20
Business and management HL:	0-4	0-5	0-7	0-5	0-4					0-25
Business and management SL:	0-4	0-6	0-6	0-3	0-3	0-3				0-25
ITGS HL and SL:	0-3	0-5	0-3	0-4	0-8	0-4	0-3			0-30
World religions SL:	0-8	0-3	0-6	0-10	0-3					0-30

Moderator (except economics)										
Senior moderator (except economics)										

Assessment criteria: Economics only

Economics (HL & SL):	A (0-3)			B (0-2)			C (0-2)			D (0-3)			E (0-4)			F (0-3)	Total (0-45)
3 Commentaries (C1/C2/C3)	C1	C2	C3	C1	C2	C3	C1	C2	C3	C1	C2	C3	C1	C2	C3		
	3	3	2	2	2	2	2	2	2	3	3	3	3	4	3	3	42

Moderator (economics)	
Senior moderator (economics)	

Please note: If group work has been undertaken please include a separate sheet to send with the internal assessment sample indicating the nature and extent of teacher direction and the proportion of group and individual work.

Teacher marking information sheet

Commentary 1	Criterion A: Diagrams	Criterion B: Terminology	Criterion C: Application	Criterion D: Analysis	Criterion E: Evaluation	Total marks	Nature of the article
Marks awarded for each criterion available	3 /3	2 /2	2 /2	3 /3	3 /4	13/14	Micro
Comments	clear + well-explained	✓	✓	V. strong	Too definitive 'will...' rather than 'might'?	Overall comments Strong piece of work but more qualification needed in conclusion.	

Commentary 2	Criterion A: Diagrams	Criterion B: Terminology	Criterion C: Application	Criterion D: Analysis	Criterion E: Evaluation	Total marks	Nature of the article
Marks awarded for each criterion available	3 /3	2 /2	2 /2	3 /3	4 /4	14 /14	Macro
Comments	Clear + well used	Accurate	✓	Strong	well-considered	Overall comments Strong	

Commentary 3	Criterion A: Diagrams	Criterion B: Terminology	Criterion C: Application	Criterion D: Analysis	Criterion E: Evaluation	Total marks	Nature of the article
Marks awarded for each criterion available	2 /3	2 /2	2 /2	3 /3	3 /4	12 /14	
Comments	loss of welfare not shown on tariff diagram	accurate + relevant	✓	Strong	no real consideration of whether India should be using tariff in long term	Overall comments Good but a couple of missed opportunities	

Marks awarded for criterion F: Rubric requirements	3 /3	Overall comments on portfolio					
Total marks awarded	42 /45	Very strong in all areas.					

IB Economics—internal assessment summary portfolio coversheet

School code <div></div>	Name of school <div></div>
Candidate number <div></div>	Candidate name <div></div>

Commentary number	Date article published	Date commentary written	Different and appropriate source	Section of the syllabus the article relates to	Number of words
1	26/04/2012	10/05/2012	The Guardian	Micro-economics	750
2	27/04/2012	23/05/2012	BBC News	Macro-economics	750
3	18/01/2013	30/01/2013	Bloomberg	International economics	675

IB Economics—internal assessment coversheet

School code	Name of school

Candidate name	
Candidate number	
Teacher	
Title of the article	<i>This half-baked pasty tax is offensive</i>
Source of the article	<i>The Guardian</i>
Date the article was published	<i>26/04/2012</i>
Date the commentary was written	<i>10/05/2012</i>
Word count (750 words maximum)	<i>750</i>
Section of the syllabus the article relates to (please tick the one that is most relevant)	<input checked="" type="checkbox"/> Section 1: Microeconomics <input type="checkbox"/> Section 2: Macroeconomics <input type="checkbox"/> Section 3: International economics <input type="checkbox"/> Section 4: Development economics

This half-baked pasty tax is offensive

Thousands of people from the pasty industry are marching to protest against unfair and nonsensical plans to change VAT rules

It's just over a month since George Osborne presented his budget to the House of Commons but the uproar over the proposed "pasty tax" hasn't subsided. The VAT extension on hot food, which would include the Cornish pasty, is not only politically unpopular, it's also unworkable, unfair and based on a flawed logic.

Throughout this debate, the government has cited the reason for changing the VAT rules as to "remove anomalies" but if this went ahead it would create an even greater and even more absurd anomaly than any that already exist. Osborne's plan would impose VAT on hot pasties but not cold pasties and this would further depend on the weather outside the shop it's bought in (as a "hot" pasty is defined as above "ambient" temperature which varies depending on the weather outside). When I quizzed him in the House of Commons last week, David Cameron compared the Cornish pasty to a fish and chip supper. But the two are a world apart. A fish and chip supper is cooked to order, sold when hot and eaten before it's cooled. Pasties, on the contrary, are cooked in batches and sold individually at various points during the cooling process.

What this means is that a customer who walks into a bakery two minutes after a tray is removed from the oven would be buying a "hot" VATable product, while another customer arriving 45 minutes later would be buying a "cold" non-VATable product. This simply doesn't make sense. The two customers didn't set out to buy different products; neither knew what the temperature of the pasty would be before they arrived in the store and its absolute lunacy for one to be subject to tax but the other not.

The economic implications of this would be enormous. Cornwall's pasty industry employs 2,000 people in production alone (and thousands more in the supply of ingredients or in retail positions) and is worth £37.5m to the local economy. A recent YouGov poll found 32% of people would "stop buying the product altogether" if the proposed tax hike went ahead. Even if one assumes that figure is slightly exaggerated and is more like 20% it would result in 400 redundancies and losses to the Cornish economy of £7.5m per year. When Osborne came to Cornwall on a campaign visit back in 2008, he said:

"Cornwall is having a tough time with the economy and businesses are finding it hard. There are things that the Conservatives can do."

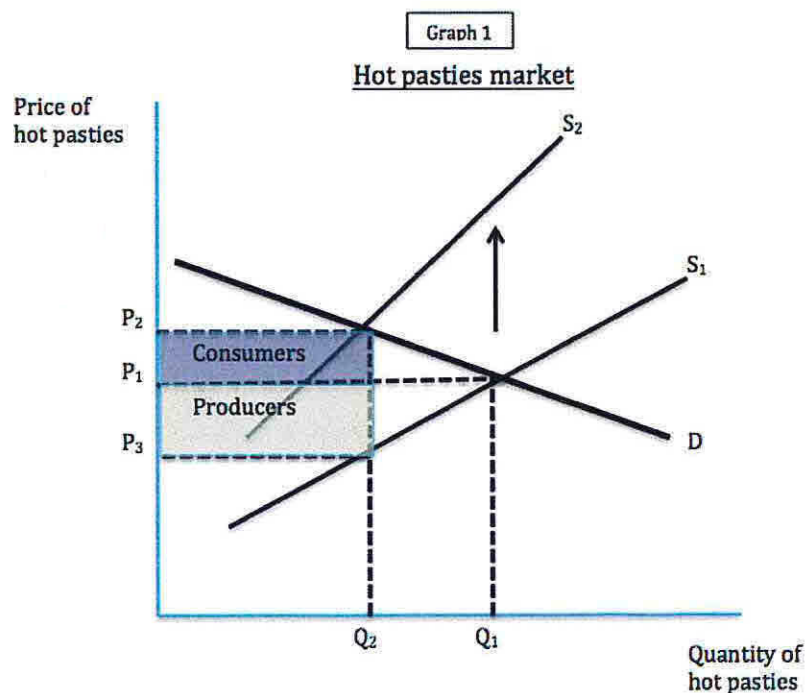
Recently a new regulation was proposed in the UK, which would set VAT on hot pastries. The proposition caused a lot of discussion in the UK mainly because of the possible economic implications on the economy of Cornwall.

A demand curve indicates the various quantities of a good that consumers are willing and able to buy at a particular price level. A supply curve indicates the various quantities of a good that firms are willing and able to produce at different possible prices. The points, where the demand curve and the supply intersect, determine the equilibrium price and quantity. The price elasticity of demand (PED) indicates the responsiveness of the quantity to changes in its price, and also determines the slope of the demand curve. The Value Added Tax (VAT) is an indirect tax, meaning that both consumers and firms will be involved in paying the tax to the government. VAT is also an ad valorem tax, and is calculated as a fixed percentage of the price of the good.

The demand for pasties is likely to be price elastic, because pasties have many substitutes, such as various takeaway foods. As stated in the article, the YouGov poll found that 32% people would stop buying the pasties if the proposed tax is initiated. As the VAT rate would increase the price of pasties by 20%¹, the PED of pasties would be equal to $PED = \frac{-32\%}{20\%} = -1.6$

The PED can be significantly higher, because the YouGov poll only indicates the number of consumers who will stop buying pasties completely. There are likely to be many people who will still continue consume pasties, but in smaller quantities.

In graph 1, the markets for hot pastries in the UK are shown. The demand curve D intersects the supply curve S at an equilibrium price of P_1 and equilibrium quantity of Q_1 . If the VAT rate will be imposed on hot pastries, the supply curve S_1 will shift to S_2 . However, since VAT is an ad valorem tax the new supply curve S_2 will be steeper than S_1 . The new equilibrium price will rise to P_2 and the new equilibrium quantity will fall to Q_2 . The vertical difference between the two supply curves ($P_2 - P_3$) represents the amount of tax per unit of output.

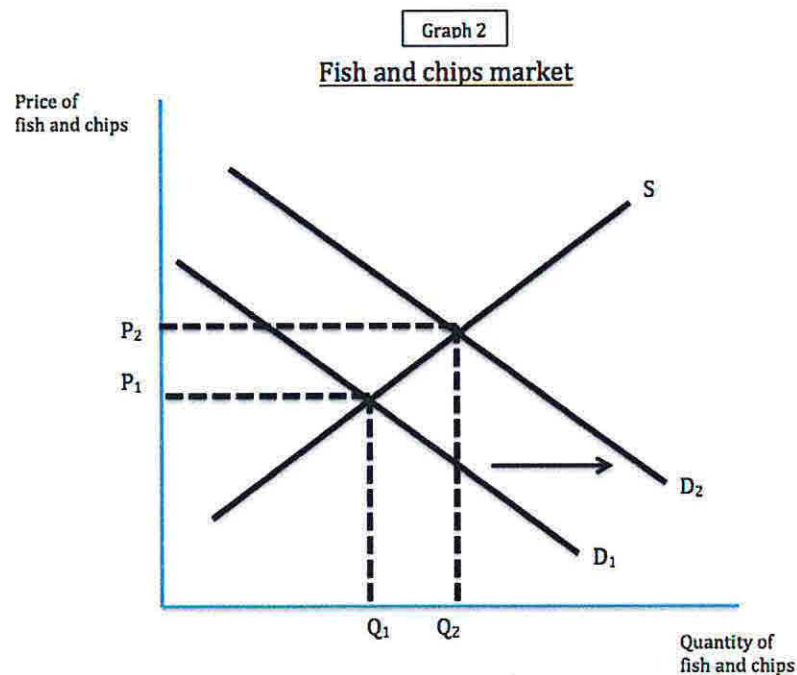


¹ Standard rate of Value Added Tax in the United Kingdom

The tax burden of consumers will be equal to $(P_2 - P_1) \times Q_2$, which is less than the value of tax burden of producers $(P_1 - P_3) \times Q_2$. Therefore the producers will pay for most of the imposed tax. The new total revenue would decrease from $(P_1 \times Q_1)$ to $(P_2 \times Q_2)$, decreasing the profit of the firms.

Although the new tax does not seem logical to many people, as indicated in the article, the government does so to 'remove anomalies'. Probably the main anomaly is that the producers of hot pasty are substitutes to other hot food. The firms supplying pasties have advantage over the firms supplying other hot food because they do not have to pay the VAT. By taxing the hot pasties the government will try to eliminate that inequality.

As a takeaways food, fish and chips are substitutes to hot pasties. If the tax on pasties will be accepted, the demand for hot pasties will decrease, and the quantity demanded for the substitute fish and chips will increase, resulting in a shift of the demand curve from D_1 to D_2 on graph 2, increasing the equilibrium price and quantity. However, it is possible that fish and chips are unrelated goods with hot pasties. If so, the demand for fish and chips will remain the same.



As the illustrated in the article, if the proposed tax went ahead, it could result in 400 redundancies in the Cornwall pasty industry. Cornwall is one of the poorest regions in England, and the liquidation of 400 jobs may be very harmful to the local economy, which is already in a bad state. Moreover, as VAT is a regressive type of tax (meaning that as income increases, proportion paid decreases), income distribution will also worsen.

The producers of pastry substitutes will benefit from the tax imposition as their revenue would increase. However, since Cornwall is the home region for pasty, the demand for other substitutes in this particular UK region is likely to be low. Therefore, the benefits for producers of other products will be significantly lower than the loss of the pasty industry. More jobs will be lost in the pasty industry than created in other industries, and possibly that is why the pasty tax caused so much debate.

IB Economics—internal assessment coversheet

School code	Name of school
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Candidate name	<div></div>
Candidate number	<div></div>
Teacher	<div></div>
Title of the article	<i>Spanish unemployment hits record 5.64 million</i>
Source of the article	<i>BBC news</i>
Date the article was published	<i>27/04/2012</i>
Date the commentary was written	<i>23/05/2012</i>
Word count (750 words maximum)	<i>750</i>
Section of the syllabus the article relates to (please tick the one that is most relevant)	<div><div><input type="checkbox"/> Section 1: Microeconomics</div><div><input checked="" type="checkbox"/> Section 2: Macroeconomics</div><div><input type="checkbox"/> Section 3: International economics</div><div><input type="checkbox"/> Section 4: Development economics</div></div> <div></div>

Spanish unemployment hits record 5.64 million

The number of unemployed people reached 5,639,500 at the end of March, with the unemployment rate hitting 24.4%, the national statistics agency said. The figures came hours after rating agency Standard & Poor's downgraded Spanish sovereign debt.

Official figures due out on Monday are expected to confirm that Spain has fallen back into recession. Earlier this week, the Bank of Spain said the economy contracted by 0.4% in first three months of this year, after shrinking by 0.3% in the final quarter of last year.

Other figures released on Friday showed that Spanish retail sales were down 3.7% in March from the same point a year ago, the 21st month in row sales have fallen.

'Huge crisis'

In the first three months of the year, 365,900 people in Spain lost their jobs. The country has the highest unemployment rate in the European Union and it is expected to rise further this year.

The rate has risen sharply since April 2007, when it stood at 7.9%.

"The figures are terrible for everyone and terrible for the government... Spain is in a crisis of huge proportions," Foreign Minister Jose Manuel Garcia-Margallo said.

The new government has announced reforms to the labour market, including cutting back on severance pay and restricting inflation-linked salary increases, that it hopes will ease the problem.

"In Spain today, a cycle similar to Greece is starting to develop," said HSBC chief economist Stephen King.

"The recession is so deep that when you take one step forward on austerity, it takes you two steps back."

The yield on Spanish government bonds traded in the secondary market rose following the release of the unemployment figures and the S&P downgrade.

The yield on 10-year bonds rose to 5.96%, up from 5.81%, suggesting investors were becoming more wary of Spain's ability to repay its debts.

'Comprehensive' reforms

Late on Thursday night, the ratings agency Standard & Poor's cut Spain's rating by two notches to BBB+, warning that the country might have to take on more debt to support its banking sector.

S&P predicts the Spanish economy will shrink by 1.5% this year, having previously forecast 0.3% growth.

However, the agency did make a number of positive comments about the government's attempts to bolster Spain's economy.

"We believe that the new government has been front-loading and implementing a comprehensive set of structural reforms, which should support economic growth over the longer term," S&P said.

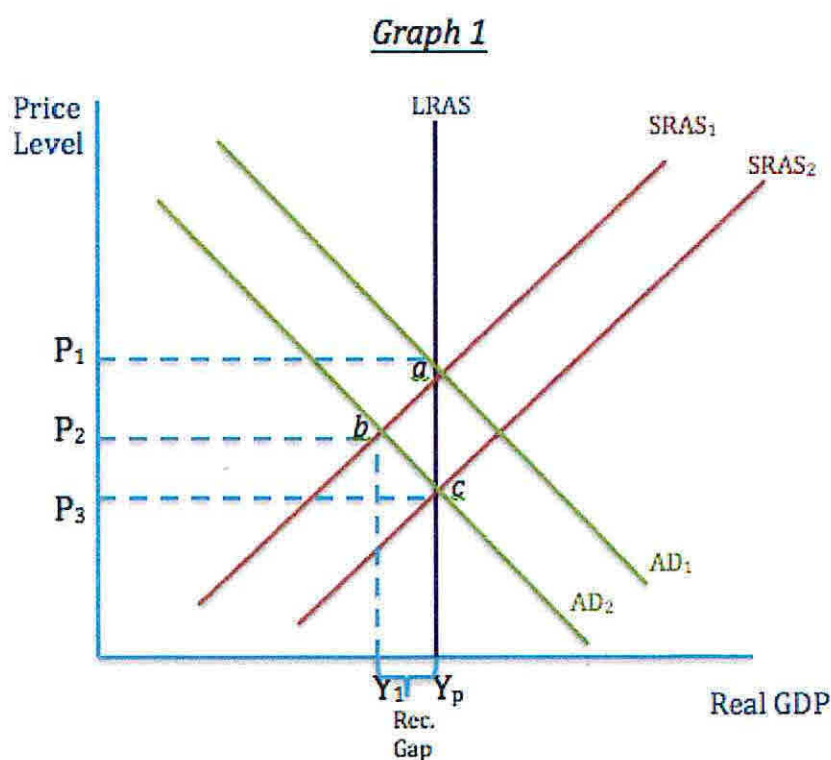
"In particular, authorities have implemented a comprehensive reform of the Spanish labour market, which we believe could significantly reduce many of the existing structural rigidities and improve the flexibility in wage setting."

Low unemployment and economic growth are the two major objectives of any government. Unemployment refers to the number of unemployed people, defined as all people above particular age who are not working and are actively searching for a job. Low unemployment is one of the major factors affecting the economic growth, which is an increase in total output produced in an economy.

Currently Spain's economy is in a huge crisis - it experiences a recession, meaning that it was in the contraction period of the business cycle for more than 6 months.

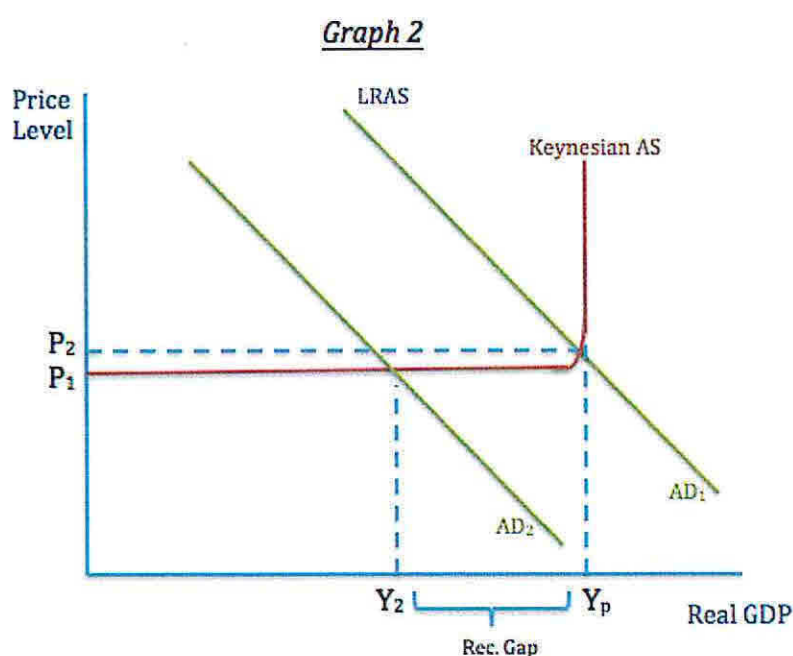
Aggregate demand equals the sum of consumption, investment, government spending and net exports. Its curve shows the total quantity of goods and services that all buyers in an economy want to buy at different price levels. Aggregate supply is the total output of an economy at any given price level.

Suppose that the Spanish economy was at point *a* on *graph 1*, where the AD Curve intersected the short-run and the long-run aggregate supply curves. Since unemployment increased and the average income decreased, the consumption in the economy has decreased. Government spending also decreased, as the government undertook various austerity measures. This caused a decrease of aggregate demand and resulted in an inward shift of AD. A recessionary gap was created as the new equilibrium is at point *b*.



Graph 1 represents the neoclassical AD-AS model. According to that theory, the recessionary gap will eliminate itself in the long run - with the decrease of the average price level, the wages eventually will fall down as well, causing an increase in the short term aggregate supply. At the new equilibrium point *c* GDP would return to its initial value, and the average price level will decrease. To accelerate this process the Spanish government plans to use different supply side policies, in particular a market-based approach by which they will make the labour more responsive to supply and demand. By implementing structural policies, the government will try to decrease unemployment, which will also shift the aggregate supply outwards.

The government may also try to use demand-side policies such as expansionary fiscal or monetary policy to eliminate the recessionary gap. The AD_2 curve will shift outwards to AD_1 . Although GDP will increase, the price level will also increase, causing inflation. Therefore, from the neoclassical point of view supply-side policies would be better than demand-side policies in eliminating recession, since they will decrease the price level.



However, according to the Keynesian economists an increase aggregate supply will not eliminate a recessionary gap. *Graph 2* shows the Keynesian representation of the supply curve. As the aggregate demand curve shifts from AD_1 to AD_2 , a recessionary gap is created. If the government uses supply-side policies, the AS curve will shift outwards, without affecting the price level or real GDP, as the intersection point with AD_2 will remain same. The only solution to eliminate the recessionary gap is to use demand-side policies and shift the AD_2 curve back to AD_1 . As seen from graph 2 opposed to the neoclassical economists, the increase in aggregate demand will only slightly affect the price level.

The down-side of expansionary fiscal policy is that it can cause a crowding-out effect. To increase aggregate demand the Spanish government will have to increase its spending by borrowing. It may involve an increase in demand for money, which may result in an increase in interest rates, which then will payoff in a decrease in investment. As stated in the article, Spain might experience problems with borrowing, since fewer investors are willing to lend Spain their money.

The government can also use expansionary monetary policy, however this policy is usually ineffective during recession, as banks may be unwilling to lend money. Moreover, firms and households, who have pessimistic expectations about future of the economy, may borrow less. Thus, aggregate demand might fall even further, as investment and consumption will decrease.

Spain could use different policies to get out of the recession – neoclassical economists suggest to use supply-side policies; Keynesians, on opposite, suggest to use demand-side policies. Demand-side policies tend to work in short-run, while supply-side policies make significant changes in the long-run. By implementing supply-side policies Spain is probably concentrating more on the growth of the economy in the long-run. If the government decides to use demand-side policies, fiscal policy is likely to work better than monetary, as it is more effective during recession times. However, it may find it hard to borrow as not many investors will lend Spain their money.

IB Economics—internal assessment coversheet

School code	Name of school
<div></div>	<div></div>

Candidate name	<div></div>
Candidate number	<div></div>
Teacher	<div></div>
Title of the article	India taxes crude palm oil imports to shield oilseed growers
Source of the article	Bloomberg
Date the article was published	18/01/2013
Date the commentary was written	30/01/2013
Word count (750 words maximum)	675
Section of the syllabus the article relates to (please tick the one that is most relevant)	<div><input type="checkbox"/> Section 1: Microeconomics</div> <div><input type="checkbox"/> Section 2: Macroeconomics</div> <div><input checked="" type="checkbox"/> Section 3: International economics</div> <div><input type="checkbox"/> Section 4: Development economics</div>

India Taxes Crude Palm Oil Imports to Shield Oilseed Growers

India, the world's biggest cooking oil consumer after China, will tax crude palm oil imports for the first time since 2008 after a slump in prices spurred record shipments, hurting domestic oilseed growers.

Crude palm and soybean oil imports will be taxed at 2.5 percent, while the tariff on purchases of refined cooking oils will be maintained at 7.5 percent, the Agriculture Ministry said in a statement yesterday. The benchmark price for calculating the tariff will be changed for the first time since 2006 on all cooking oils on a fortnightly basis, the government said in another statement on its website.

The taxes may cut Indian imports, boosting palm oil inventories in Indonesia and Malaysia, the world's largest producers, and pressure futures in Kuala Lumpur. Futures will trade between 2,300 ringgit (\$763) and 2,600 ringgit a metric ton until February, keeping inventories high, Dorab Mistry, director at Godrej International Ltd., said Nov. 30.

"Crude palm oil demand from Indian refiners are probably going to decline and the extent may not be significant because palm oil is still far cheaper than alternatives," said Ben Santoso, an analyst at DBS Group Holdings Ltd. in Singapore. "We expect prices to remain range-bound until at least May, when demand normally picks up again."

AS

India has recently announced that it will impose import tax on palm crude oil to protect their domestic oilseed growers. The tariff is believed to cut Indian imports and reduce Indonesia's and Malaysia's exports, who are the globally the largest producers.

Imports are goods and serviced produced in other countries and purchased by domestic buyers. To protect the domestic industry, the government may intervene by imposing tariffs, a form of indirect taxes, on imports. If tariffs are imposed, deadweight loss occurs, which is the loss of total surplus due to a higher price or lower quantity than those that would be determined in a free market.

On Diagram 1 the Indian domestic demand for crude palm oil is represented by the curve D_d , and the supply by domestic producers by the curve S_d . The equilibrium price should be at P_d , however, as India takes part in international trade, most of the crude oil is imported from Malaysia and Indonesia as they have comparative advantage. The supply curve of those two countries is S_w , showing that the producers are willing to supply infinite quantity for price P_w .

Without any trade barriers, the price paid by the consumers will be P_w . At this price only Q_1 will be supplied by domestic producers and $Q_4 - Q_1$ will be supplied by exporters. By imposing an import tax, the price would increase to P_{w+t} . Indian producers are now able to sell larger quantity Q_2 at higher price, meaning that their revenues increased.

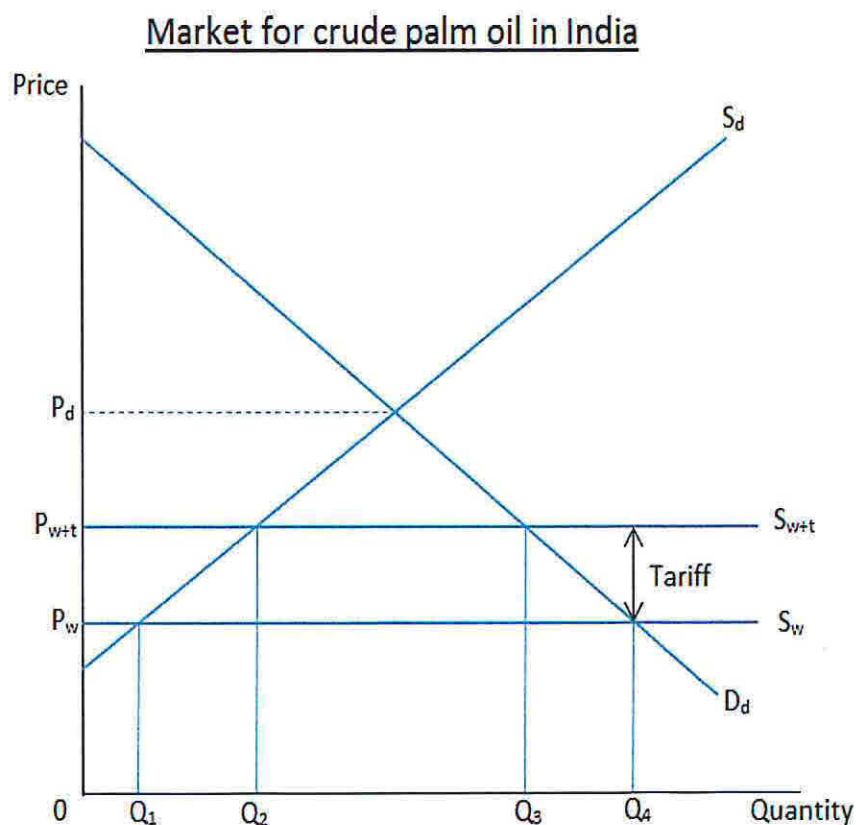


Diagram 1

Consumers lost some amount of surplus and became worse off. Domestic producers, which took some of previous consumer surplus, however, became better off as their revenues increased. The government also gained additional tax revenues. However, not all consumer surplus has been transferred – some of it became unaccounted and represents deadweight loss, showing that the society in general became worse off.

The imposition of tariff might also lower unemployment, as domestic producers now will have to employ more workers to keep up with the risen quantity demanded. Although national income will rise, overall the welfare will fall, as consumers would not be able to buy better quality palm oil.

An argument for protectionism is that the Indian government will increase its tax revenues. Those revenues could be then spent on improving infrastructure or increasing India's quality of life in general. A tariff tax is also easy to collect, as it is easy to monitor goods passing through India's border. However, the negative side of tariffs as source of government revenue is that they are a regressive type of tax, meaning that as income increases, the fraction of income paid as taxes decreases. In the long term it is likely to have negative effects on income distribution.

Although the domestic producers are inefficient compared to foreign producers, because of increased revenues they would be able to invest into new machinery or R&D, thus increasing their efficiency. On the other side, that might not be the case as domestic producers due to lack of international competitors do not have the incentive to increase efficiency. However, the government then forces the protected domestic producers to innovate, eventually India's producers would be able to compete with Indonesia's and Malaysia's palm oil. That is why the protectionism policy might be only temporary, and be only used until domestic producers become more efficient.

The main effect of that protectionist policy is that global misallocation of resources will occur. The production has been shifted away from more efficient foreign producers to inefficient producers in India. There will be a misallocation of resources both domestically and internationally, with negative effects on consumers and producers.

In conclusion, although India's unemployment will fall and its government will raise revenues, the overall welfare both domestically and internationally will fall. It may also contribute to a worse income distribution. To make tariffs work in the long term, the India's government must make sure that the producers, although lacking the incentive, increase their efficiency so that when tariffs will be cancelled, domestic producers would not need protection from international producers.